

485976

**Kozumplik, Joanne (ASRC)**

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**From:** STIC-ILL  
**Sent:** Tuesday, March 09, 2004 12:17 PM  
**To:** Kozumplik, Joanne (ASRC)  
**Subject:** FW: ILL Request

-----Original Message-----

**From:** Lehman, Karen  
**Sent:** Tuesday, March 09, 2004 11:37 AM  
**T :** STIC-ILL  
**Cc:** Griffin, Etelka  
**Subject:** ILL Request

For Examiner James Reagan  
AU 3621

Natural Gas Week, 8-3-1998 p.4

Article about a FERC meeting in which Stuart Maudlin addressed setting reserve prices using a Vickrey Auction model.

This issue is supposed to be available fulltext on Westlaw but the article didn't come up.

Thanks.

Karen

Pl 3/15  
please  
see attached  
note from  
supplier

3/9/04

Joanne:

Order 146-485976

We were not able to find an exact match. However, there were two articles about FERC in the August 3, 1998 issue. We have supplied both articles for you. This is the closest we could find.

Sue

## Turmoil...

(continued from page 3)

higher, affecting the viability of longer-term contracts as well. McCall said LG&E would exit the merchant business by either selling fixed-price obligations or negotiating resolutions with counter parties.

The most unexpected element was the scale of the defaults. "I don't think parties saw the failure of A-rated credit counter parties," he said, referring to the Springfield, Ill., municipal system.

"If they agree to sell you power, you expect them to sell the power. It's not as though you were dealing with some four- or five-person office calling itself an energy trader."

LG&E had been in the natural gas marketing and trading business for years through its LG&E Natural subsidiary, formerly Hadson Gas, and had ample experience dealing in a commodity going through the deregulation process. It had expected more parallels between gas and electricity, McCall said. Unfortunately, not enough parallels exist.

"Producers of [electricity] are way down on the learning curve of when to hold, when to sell or hedge or worry about credit," he said. "Electricity is not something you can store. And more transmission capacity was impaired than was anticipated."

—Barbara Shook

## FERC Gives Pipes Rate Relief, Seeks Input on Capacity Issues

The Federal Energy Regulatory Commission (FERC) last week granted natural gas pipelines a major victory in their ongoing turf war with producers to capture a greater share of revenue in the expanding gas market. FERC adopted more

flexible rules to allow pipelines a higher return on equity (ROE) and proposed revisions that would fundamentally alter the manner in which the secondary gas market is regulated.

In a massive notice of proposed rulemaking (NOPR), FERC invited comments from the industry on several sweeping proposals, most notably to remove price caps on — and establish auctions for — released pipeline capacity in the short-term markets, and to allow pipelines to negotiate rates and terms of service.

While the NOPR will surely spawn a groundswell of protest from shippers and a protracted struggle of accusations and acrimony, pipelines for the moment can savor FERC's ruling, which revises its method for determining ROE, and effectively grants pipelines a greater share of the revenue pie.

The decision — handed down in separate rate proceedings concerning Iroquois Gas Transmission System LP, Williams Natural Gas Co., Williston Basin Interstate Pipeline Co. and Transcontinental Gas Pipe Line Corp. — adjusted the ROE formula to place greater weight on short-term growth projections of the market and discontinued a rule requiring pipelines' equity ratio fall within a range of similar companies.

FERC recently had adopted a two-step, discounted cash flow method, which pipelines complained low-balled growth estimates, thereby lowering their designated ROE.

Applying that methodology in an earlier case, an administrative law judge had ruled that Iroquois Gas should receive a 10.97% ROE, significantly lower than the 14% ROE which Iroquois was to earn when certified.

### 'Perverse Incentives' Cited

FERC also said it would no longer penalize pipelines for creating "efficiencies" and moving from a high-risk to a low-risk project. FERC Chairman James J. Hoecker argued that these "perverse incentives" had necessitated a lower ROE for pipelines which had improved their services.

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**SALT CAVERN STORAGE**  
(Billion Cubic Feet)

Facility	State	MMcfd Max Injection	MMcfd Max Withdraw	July 24			July 1		Bcf Capacity	July 1 Bcf Working	% Full
				Bcf Capacity	Bcf Working	% Full	Bcf Chng Weekly	Bcf Chng From 1st			
Bethel	Tex.	132	600	NA	NA	NA	NA	NA	NA	NA	NA
Lone Star											
Hattiesburg	Miss.	176	350	5.5	3.5	64%	-0.3	0.0	5.5	3.5	64%
Hattiesburg											
Moss Bluff	Tex.	150	900	9.4	8.0	85%	0.2	2.0	9.4	6.0	64%
Tejas											
North Dayton	Tex.	250	500	6.3	4.6	73%	-0.1	0.5	6.3	4.1	65%
HNG Storage											
Petal	Miss.	160	320	3.2	2.2	69%	0.0	0.2	3.2	2.0	63%
Crystal Oil Co.											
Stratton Ridge	Tex.	80	250	2.0	1.0	49%	-0.1	0.0	2.0	1.0	48%
Tejas Ship Channel LLC											
Stratton Ridge	Tex.	50	100	6.8	1.3	19%	0.0	0.0	6.8	1.3	19%
KN Energy											
Wilson Storage	Tex.	360	800	7.2	2.7	37%	0.1	0.1	7.2	2.5	35%
Valero											
Yaggy	Kan.	190	190	2.9	1.8	62%	0.0	0.0	2.9	1.8	62%
Mid-Con. Mkt. Ctr.											
<b>Total:</b>		<b>1,547</b>	<b>4,010</b>	<b>43.3</b>	<b>25.1</b>	<b>58%</b>	<b>-0.1</b>	<b>2.9</b>	<b>43.3</b>	<b>22.2</b>	<b>51%</b>

NOTES: (1) Max Injection is the maximum amount of gas that can be injected into the facility in one day. (2) Max Withdrawal is the maximum amount of gas that can be withdrawn in one day. (3) Capacity is the maximum amount of working gas that can be stored in the facility. (4) Working Gas is the gas in the facility that can be withdrawn. (5) % Full is the amount of working gas in storage as a percentage of capacity. (6) Bcf Change Weekly is the amount of difference in billions of cubic feet between the current working gas levels reported and the working gas levels reported in the previous survey. (7) Bcf Change From 1st is the amount of difference in billions of cubic feet between current working gas levels and working gas levels reported on the first day of the month. \*Sabine Pipe Line Co. recently opened its second Spindletop salt cavern — increasing working gas capacity at the site by 6 Bcf.

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"In the past, regulatory practices have, to some extent, rewarded less efficient, higher risk companies with higher ROEs, giving them little incentive to improve their management, operations and customer satisfaction," FERC said in the Transcontinental rate revision case.

"Ultimately, the benefits of this new policy will accrue to rate payers," FERC said, as pipelines will have greater incentive to improve services and enhance their market position.

Pipelines held a conference in late January to highlight what they deemed were flaws in FERC's method for determining ROE, arguing that the diminished ROE provided no incentive to build new capacity to accommodate an expected 30 Tcf gas market by 2010.

The complaints apparently did not fall on deaf ears. Hoecker said that the January symposium exposed to FERC that the old rules for establishing ROE were "far too rigid and did not allow pipelines to plead their unique circumstances during a rate case."

The new, more flexible ROE methodology effectively boosted Transcontinental's ROE to 12.49%, and Iroquois Gas's to 12.38% from 10.97%. Williams Natural Gas was allowed an ROE of 13.4%.

#### Mega-NOPR to Liberalize Market

In a unanimous ruling, FERC also proposed a NOPR that would fundamentally alter the rules for short-term pipeline contracts, with the thrust of the proposed revisions to foster a more competitive secondary market.

While long-term transportation would still fall under cost-based regulation, FERC would essentially step away from the short-term markets — defined as agreements of less than one year — and serve as less of a governing body and more of a referee to protect against market abuse and undue discrimination.

The proposed changes would:

- Remove the price cap on released capacity and firm

and interruptible transportation in the short-term markets. In the NOPR, FERC notes that under current rules holders have no incentive to release capacity during peak periods, the time when the industry would most benefit from maximum shipping capacity.

- Require pipelines to auction short-term capacity on the open market. FERC would revise reporting requirements and create more uniform nominating procedures for released capacity, with the effect to create greater transparency in the market and guard against price discrimination and market power abuse.

- Permit greater flexibility to pipelines to negotiate the terms and conditions of service with individual shippers, while protecting captive customers from discrimination.

—Andrew H. Ware

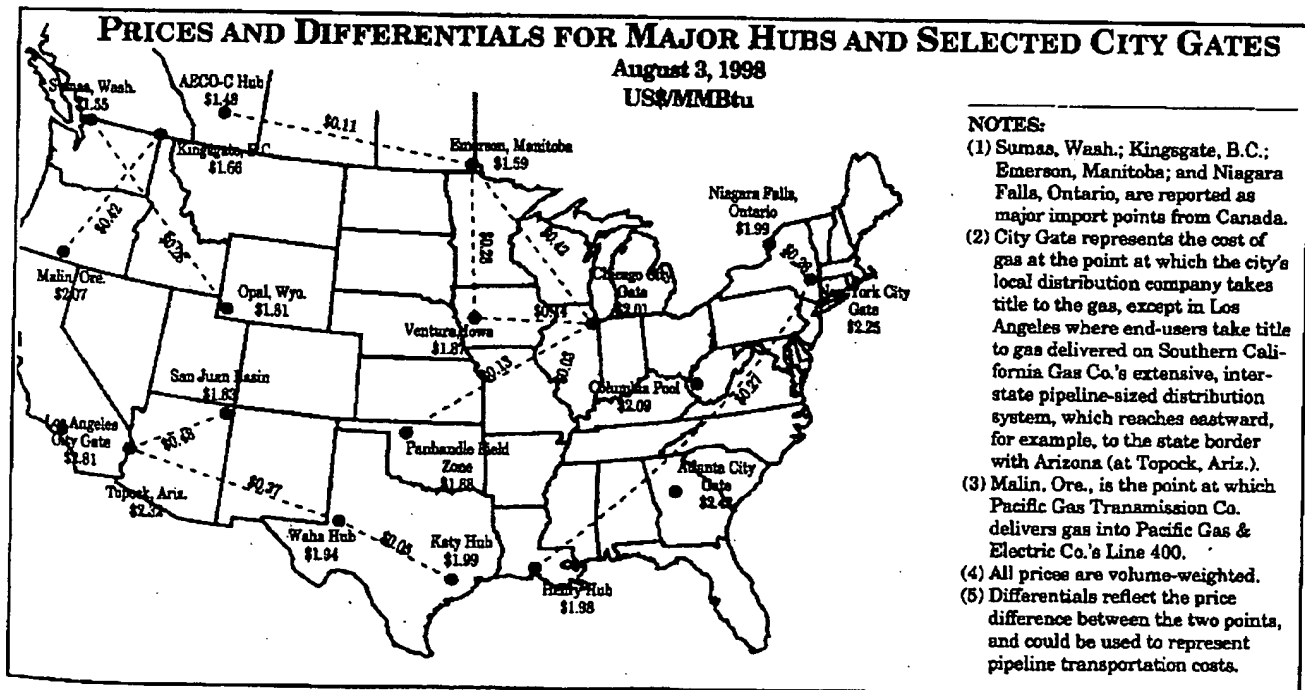
## FERC Proposal Aims to Improve Commission's Complaint Process

The Federal Energy Regulatory Commission (FERC) last week proposed procedures for resolving complaints that would apply uniformly to the electricity and natural gas sectors. The changes are intended to encourage and support the timely resolution of differences among parties while recognizing the evolving marketplace.

FERC is seeking comments within 60 days of the proposal's publication in the *Federal Register*, which is expected soon.

Under FERC's notice of proposed rulemaking (NOPR), complainants are directed to resolve their differences by taking advantage of what FERC Chairman James J. Hoecker referred to as a "triage process," which puts complaints on a fast track for closure through an alternative dispute resolution (ADR), a formal hearing or a decision based

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## FERC...

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on the pleadings.

"I don't want to encourage over-reliance on complaints. We are not advising parties to invite us into every commercial dispute...but where appropriate we have to stand ready...with answers and advice and we have to have those expeditiously," Hoecker said.

The NOPR essentially encourages complainants to resolve problems informally. If formal complaints are filed with the agency, the complainant has to identify the problem, explain what action is being sought and why, and provide the same information to other interested parties.

"It's a very positive, workable approach for dealing with compliance and enforcement issues" that doesn't put a "drag on the economy," said Sheila Slocum Hollis, a partner with law firm Duane Morris and Heckscher and formerly FERC's first director of enforcement.

The proposed rule, which relates to the "FERC First" philosophy of promoting competitive markets (NGW, 6-15-98, p.3), is the agency's attempt to "cross-fertilize" between the fuel and power interests, explained Chris Forbes, director of federal commercial and regulatory policy for the Edison Electric Institute (EEI).

Following a FERC arbitration symposium earlier this year, four major electric industry groups, including EEI, proposed a six-track ADR procedure that would speed up the agency's process for resolving disputes (NGW, 6-29-98, p.14). These procedures "harmonize closely" with FERC's NOPR and are designed for a commercial rather than regulated environment, Forbes said.

Echoing this sentiment, FERC Commissioner Curt Hebert said the NOPR "is designed to encourage and foster ideas with lighter-handed regulation in mind. As industry strives for the highest level of efficiency in the competitive arena, so should the commission seek the optimum methods to solve disputes which will arise."

FERC Commissioner William L. Massey, a Democrat, was sworn in last week to serve a second five-year term. His first term expired on June 30 and he was confirmed by the Senate on June 26.

—Victoria K. Green

## Syntroleum Marks Public Debut With Vote of Confidence in GTL

With its debut as a public company scheduled for later this week, Syntroleum Corp. is looking for a future filled with natural gas-to-liquids (GTL) conversion projects in spite of \$12-\$14 oil prices, President Mark Agee said last week.

Agee told potential investors at a "roadshow" in Houston that Syntroleum expects to develop both stand-alone GTL projects at remote locations and other ventures that would be integrated with oil production and associated-gas disposal operations.

The GTL process converts natural gas into a variety of higher value middle distillate liquids such as heating oil, kerosene and jet fuel and a variety of special products such as industrial waxes and drilling fluids.

The conversion process is well established, but it has not

been considered economically viable until recent advances in the technology. Nevertheless, most GTL project sponsors have said they need \$18 oil to ensure an adequate return.

Agee said the economics for every facility are unique to that project and location. Even at \$14 oil prices, some projects are going to be economically feasible.

As an example, he cited a situation where an oil producer has a supply of associated gas, but no local market and a prohibition against flaring. In this case, the associated gas either was not needed or in excess of the volume required for re-injection for reservoir pressure maintenance.

The feedstock gas for a GTL plant then would have a negative cost, equal to what the operator was saving by not having to re-inject the gas, Agee said.

"In that type of scenario, it's not difficult at all for a GTL plant to be economic," he said.

Syntroleum expects two primary sources of revenues, said Randall M. Thompson, CFO. The first is through licensing agreements with third parties.

The licensee would pay an up-front, lump-sum fee for the right to use Syntroleum's technology and an ongoing fee for

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### CITY GATE PRICES

July 1, 1998  
(\$/MMBtu)

City	Bid Week for August	Bid Week for July
Austin, Texas Valero Transmission Co.	2.01	2.38
Boston, Mass. Algonquin Gas Transmission Co.	2.22	2.60
Chicago, Ill. Natural Gas Pipeline Co. of America	1.98	2.45
Denver, Colo. Colorado Interstate Gas Co.	1.98	1.88
Detroit, Mich. ANR Pipeline Co. Panhandle Eastern Pipe Line Co.	1.98 1.97	2.41 2.43
Los Angeles, Calif. Southern California Natural Gas Co.	2.78	2.74
Minneapolis, Minn. Northern Natural Gas	1.97	2.37
Nashville, Tenn. Columbia Gulf Transmission Co. Tennessee Gas Pipeline Co.	1.89 1.90	2.30 2.31
New York, N.Y. Tennessee Gas Pipeline Co. Texas Eastern Transmission Corp. Transcontinental Gas Pipe Line Corp.	2.20 2.19 2.18	2.55 2.57 2.58
Philadelphia, Pa. Texas Eastern Transmission Corp. Transcontinental Gas Pipe Line Corp.	2.18 2.15	2.51 2.54
Seattle, Wash. Northwest Pipeline Corp.	1.63	1.49
Toronto, Ont. TransCanada Pipeline Co.	1.97	2.39
Washington, D.C. Columbia Gas Transmission Corp. Transcontinental Gas Pipe Line Corp.	2.17 2.17	2.51 2.52

NOTE: A city gate price represents the cost of gas at the point at which the local distribution company takes title to the gas, usually at the utility's gate station. The city gate price also can be the price to an end-user if the LDC is bypassed. Prices are reported on a weekly basis for the average price of contracts with durations of 31 days or less. R-Revised. Bid Week: These averages, updated the first issue of each month, reflect prices collected during the entire nomination period.